



STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION
DOCKET NO. 00-0194

REBUTTAL TESTIMONY OF REED T. SCHEPPMANN
ON BEHALF OF CITIZENS UTILITIES COMPANY OF ILLINOIS

Q: Please state your name and business address.

A: Reed T. Scheppmann, Citizens Utilities Company of Illinois ("Citizens" or "Company")
1000 Internationale Parkway, Woodridge, Illinois 60517.

Q: Are you the same Reed Scheppmann that previously submitted direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony in this proceeding?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of the Staff of the Illinois Commerce Commission. In particular, I will respond to Theresa Ebrey's recommendation that, when Citizens files the journal entries recording the transaction with the Chief Clerk's Office, it also provides a copy to the Commission's Director of Accounting. I will also respond to Roy King's testimony concerning the Agreement between Terra Cotta and Citizens.

Q. Does Staff witness Theresa Ebrey oppose Citizens' proposal?

A. No. Theresa Ebrey, of the Staff's accounting department, does not have any objection to the proposal; however, she requests that, when Citizens files the journal entries recording the transaction with the Chief Clerk's Office, it also provides a copy to the Commission's Director of Accounting.

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I.C.C. DOCKET NO. 00-0194

Citizens Exhibit No. 1.1

Witness

Date 8/1/2000 Reporter [Signature]

Q. Does Citizens agree to do this?

A. Yes. The Company agrees to submit copies of the journal entries to the Director of Accounting, as requested.

Q. Does Staff witness Roy King agree that Citizens has met the requirements for a utility to receive a Certificate of Public Convenience and Necessity?

A. Yes. Mr. King agrees that Citizens has demonstrated that the proposed construction is necessary to provide adequate, reliable and efficient service to customers and is the least-cost method of providing water and sewer service to the customers in the proposed area. Mr. King also agrees that Citizens is financially and operationally capable of providing service to the area, and that a public need exists for a certificate to provide water and sewer service to the Terra Cotta property. Additionally, Mr. King inspected the area in question and found that the water mains installed comply with 83 Ill. Adm. Code Part 600.

Q. Mr. King represents that water and sewer utilities have a high level of investment per customer compared to other utilities. Do you agree?

A. Yes. I agree with Mr. King and, with the issues of aging infrastructure and increasing regulations, the investment per customer is expected to go up. When you take into consideration increased investment per customer without increased consumption per customer, there will be increased pressure on rates.

Q. Does Mr. King agree that the Agreement (Exhibit A) between Terra Cotta and Citizens is reasonable?

- A. Mr. King found that the Agreement is reasonable for water facilities as it complies with Section 600.370. However, Mr. King does not believe the agreement is reasonable with respect to the sewer facilities being acquired by Citizens.
- Q. **Why does Mr. King believe that the agreement is not reasonable with respect to the sewer facilities?**
- A. Mr. King states that the agreement is unreasonable with respect to sewer facilities because it does not include any refund provisions to Terra Cotta for sewer facilities as customers are attached. Although Mr. King agrees that the developer should advance the funds for construction of the sewer backbone plant or construct the sewer facilities, he believes that the advances should be subject to refunds.
- Q. **Does Mr. King reference any part of the Public Utilities Act (PUA) that would require the utility to make refunds as he is suggesting?**
- A. No.
- Q. **Are you aware of any part of the Act or Commission rules which would require refunds on sewer facilities?**
- A. No.
- Q. **Given there is no legal requirement, do you agree with Mr. King's recommendation?**
- A. No. As indicated above, Mr. King's proposal has no basis in law. There are no rules in 83 Illinois Administrative Code Part 600 or any other section of the Commission's rules which impose any requirements regarding financing or funding of sewer facilities, nor do

Citizens' tariffs provide for refunds on sewer facilities. Other problems with his proposal are discussed below.

Q. Has this argument or similar arguments been raised by the Commission Staff in the past?

A. Yes. In Docket 94-0481, Mr. King suggested that the water "main extension rule" also apply to the Company's sewer service. Citizens Utilities Company of Illinois, Ill. C.C. Docket No. 94-0481, 1995 PUC 587 (1995).

Q. Did either the Company or the Commission support Mr. King's proposal?

A. No. The Company opposed Mr. King's proposal for several reasons, including those I mentioned above. The Commission also rejected Mr. King's proposal to extend the main extension rule to sewer service. The Commission suggested that, if a sewer main extension rule was to be developed, it should be done in the context of a generic hearing and be applied to all utilities affected by it.

Q. Has the Commission adopted any sewer rules comparable to the water rules since the conclusion of Docket 94-0481?

A. No. The Commission has not proposed or adopted any such rules.

Q. Would increased investment in sewer facilities as suggested by Mr. King, potentially affect the rates to the customer?

A. Yes, increased investment by the Company would lead to higher rates to the customer than would be required without it. In contrast, the negotiated Agreement with Terra Cotta will not put any pressure on rates due to increased investment.

Q. Mr. King's testimony references that \$1,439,350 of sewer facilities are obtained by the Company and recommends that Citizens make more investment in sewer facilities. Do you know how Mr. King obtained this dollar amount?

A. I believe the number for sewer facilities in the approximate amount of \$1,439,350 was obtained from supplemental data response TEE 2.02. In TEE 2.02 estimated Gross Utility Plant In Service for Wastewater Treatment plant is \$449,221.44 and estimated Gross Utility Plant In Service for Wastewater Collection System is \$990,212.77. The total of these two is approximately \$1,439,350. This represents approximately 1.5% of the \$94,018,482 in Gross Utility Plant In Service as represented in the Company's 1999 Annual Report on file with the Commission. The Company's Annual Report on file with the Commission also reflects \$45,895,665 in Net book cost of sewer facilities. I believe these numbers represent that a significant continuing investment in sewer facilities has been maintained by the Company.

Q. In your opinion, is the Agreement (Exhibit A) reasonable regarding the sewer facilities being acquired by Citizens?

A. Yes. I believe it is reasonable, and it is consistent with the Company's approved Tariffs and historical way of doing business.

Q. Are there other reasons why the Commission should find the terms of the Agreement reasonable?

A. Yes. The Agreement was the result of arms length negotiations between two experienced parties. Terra Cotta and Citizens negotiated these terms over a period of time, with both

parties represented by experienced business persons and with the advice and assistance of counsel.

Q. What do you recommend the Commission do in this case?

A. I recommend that the Commission approve Citizens' request for a Certificate of Public Convenience and Necessity authorizing Citizens to provide water and sanitary sewer services to various parcels located in McHenry County, Illinois, and for approval of the related Asset Purchase Agreement between Terra Cotta and Citizens. As stated in Citizens' Petition and my Direct Testimony, Citizens' proposal meets the requirements of Section 8/406 of the PUA.

Q. Does this conclude your rebuttal testimony?

A. Yes.